

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**October 16, 2001**

The Capital Projects and Bond Oversight Committee met on Tuesday, October 16, 2001, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Robert Leeper, Vice Chairman; Senators Tom Buford and Bob Jackson; Representatives Paul Marcotte and Jim Wayne.

Guests testifying before the committee: Glenn Mitchell, Armond Russ, Jim Abbott, and Don Mullis, Finance and Administration Cabinet; Marty Gibbs, Mike Denney, and William May, Kentucky Lottery Corporation; Dr. Bill Brundage, Economic Development Cabinet; Ken Clevidence and Dall Clark, University of Kentucky; Bill Hintze, Governor's Office for Policy and Management; General Leslie Beavers, Department of Veterans' Affairs; and Debby Milton, Kentucky Infrastructure Authority.

LRC Staff: Mary Lynn Collins, Pat Ingram, Kevin Mason, Nancy Osborne, and Shawn Bowen.

Chairman Haydon recognized Representative Gippy Graham as a guest, and called on Mary Lynn Collins, Committee Staff Administrator, to review various correspondence items included in members' folders. Among the items she reviewed was correspondence from Finance and Administration Cabinet Secretary Kevin Flanery regarding the proposed renovation of Western Kentucky University (WKU) E.A. Diddle Arena. In a letter to WKU President Gary Ransdell, Secretary Flanery indicated he had concluded that no further action should be taken on the arena prior to approval by the 2002 General Assembly. Also included in members' folders was correspondence from WKU's General Counsel and the law firm of Wyatt, Tarrant & Combs, in response to questions committee members asked last month about legal fees associated with the arena project; correspondence from Murray State University updating the committee on the West Regional Postsecondary Education Center project in Hopkinsville; and two reports from the Office of Financial Management: the Annual Report of Bonds Outstanding and the Semi-Annual Report of the Kentucky Asset Liability Commission.

Chairman Haydon updated the committee on the Working Group that was assembled by Dr. Gordon Davies, President, Council on Postsecondary Education, and

Finance Secretary Flanery, to recommend a statutory process for review of future proposals similar to the Diddle Arena renovation. He said that group had originally been scheduled to report to the committee today. They have made a great deal of progress and are nearly finished with their work, but they asked for another month to finalize their report.

Chairman Haydon called on Finance Deputy Secretary Glenn Mitchell to discuss a feasibility study recently completed about alternative financing and construction methodologies for a major new office building in Franklin County. Mr. Mitchell said the first phase of the Feasibility Study, discussed at the committee's September meeting, focused on design of the building, and the second phase of the study focused on financing alternatives. The consultant for this project, CMW, designed two buildings - one with 65,000 gross square feet and one with 127,000 gross square feet, both with flexible work stations.

Mr. Mitchell said CMW analyzed four different approaches to fund construction of a 127,000 SF prototypical office building: (1) state ownership with the state issuing bonds; (2) local government ownership with the city or county issuing the bonds and the state lease-purchasing the building over the period of the bonds; (3) private ownership with the state lease-purchasing the building; and (4) private ownership with conventional state leasing of the space. He said the least expensive option over a 20-year period is state ownership, which would cost approximately \$2.3 million per year and the most expensive option is private development lease purchase, which would cost approximately \$3 million per year.

Representative Wayne asked if anyone has studied how other states finance the construction of their state office buildings. Mr. Mitchell said they are in the process of researching that now. He said a lot of states have used a method called Rural 6320 Corporations, which is a provision in the Internal Revenue Service (IRS) regulations that allows an entity that is created for government purposes to issue bonds and purchase a government asset. That entity stays in existence while the bonds are outstanding, and the government leases the asset. At the end of 20 years, the asset is transferred to the government and the entity goes out of existence. Mr. Mitchell said this type of debt is tax exempt and considered "off-books" debt. It would not be a debt to the Commonwealth, but rather a debt to that entity. Representative Wayne said it would be helpful for members to have information about how other states finance construction, and Mr. Mitchell said they hope to have this information to members by the next meeting.

Representative Marcotte asked what it would cost to remodel the building after 20 years. Mr. Mitchell said since this was only a 20-year analysis, they did not assume a remodeling. He said he would be glad to work with committee staff to develop any further analysis members would like to see. Representative Marcotte commended the Cabinet for the work it has done on this study.

In response to a question from Senator Buford concerning state construction, Mr. Armond Russ, Commissioner of the Department for Facilities Management, said there is a performance bond as part of all state contracts, and if for any reason, the general contractor failed to complete the project, it would be the bonding company's responsibility to find a contractor to finish the work.

Mr. Mitchell next discussed the Frankfort Master Plan. He said the statutes require that the Finance Cabinet establish a long-range planning effort for satisfying the state's facility needs in Frankfort. The Cabinet is to specifically look at the need for flexibility, through the proper balance of leased versus owned space; efficiency, through the consolidation of agencies; and the impact of technology on space utilization. He said they have attempted to do that with the Fantus study developed in 1996, the CMW study, and the land use study. Mr. Mitchell said one of the major findings of the Fantus study was that state government had 5.8 million square feet of space in Franklin County and approximately 1.8 million square feet, or 31%, was leased. He said the state has in the past five years increased the leased space by approximately 100,000 square feet. One of the primary recommendations of the Fantus study is that the state should reduce its reliance on leased space to approximately 15% of its total space. In order to meet this goal, the state would need to build 750,000 square feet.

Mr. Mitchell said the Cabinet retained Barrett Partners Inc., a planning and landscape architecture firm, to look at the six tracts of land the state predominantly owns (300 acres) in Frankfort and determine the suitability of those sites for future development. For each of the six sites, the consultant reviewed adjacent uses, zoning information, existing infrastructure, the topography, and whether the land is in the floodplain. Barrett Partners identified space for over three million square feet of office space and associated parking.

Representative Wayne said as a member of the Governor's Task Force for Smart Growth, he thought the Frankfort Master Plan was not a smart growth plan. It calls for new buildings that would be on the fringe, rather than in the downtown core. He expressed concerns about the additional infrastructure that would be required to build at new locations, increased traffic congestion, and the impact such buildings would have on Frankfort's core community. He suggested the plan be taken back to the consultant for review from a smart growth perspective and if that is not possible, another consultant should be hired.

Mr. Mitchell said he did not disagree with Representative Wayne. He said there is a discussion of mixed use planning in the areas, including some residential housing. He noted that the administration worked hard to locate the new Transportation Cabinet building downtown in a fairly challenging site. He said they are looking at a combined approach that would include some development downtown. He added they are committed

to working with the Holmes Street group who are interested in improving their neighborhood with an appropriate mix of residential and commercial development.

Representative Wayne said he liked the idea that the Cabinet was integrating residential and commercial properties nearby. He said the Cabinet should also look at other factors such as how people will get to work, if the area is pedestrian friendly, and if there is sufficient green space. He said there are alternatives to sprawl which are much more reasonable and more cost effective in terms of taxpayer dollars.

In response to a question from Representative Graham, Mr. Mitchell said they are planning to submit to the 2002 General Assembly a request for a 350,000 square foot office building that would be financed under the lease-purchase arrangement using either a local government entity or another "off-books" type entity to issue the bonds in order not to cut into the state's bond capacity. Chairman Haydon said no action was required for this report.

Chairman Haydon noted that the committee had not approved the minutes of last month's meeting. Representative Marcotte made a motion to approve the minutes of the September 18, 2001 meeting as submitted. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon next introduced Dr. Bill Brundage, Commissioner for the Office for the New Economy, to discuss a report for projects approved from the New Economy Pools.

Dr. Brundage discussed the projects funded the by High-Tech Construction Pool and the High-Tech Investment Pool. To date, the High-Tech Construction Pool has funded \$16 million in projects: Technology Innovation Center at Louisville Medical Center - \$5,000,000; Eastern Kentucky Innovation and Commercialization Center - (Eastern Kentucky University) - \$5,000,000; Bowling Green (Western Kentucky University)-Innovation and Commercialization Center - \$4,000,000; WKU Integrated Engineering Applications Lab - \$1,000,000; Kentucky Energy/Environmental Consortium - \$300,000; Southern Ky. Economic Development Corporation Information Technology Center - \$200,000; and Northern Kentucky Emerging Technology Commercialization Triangle-Phase 1 - \$500,000.

The High-Tech Investment Pool has funded \$19,500,000 in projects to date: Downtown Lexington Technology Center-The Factory - \$500,000; Intranasal Technology Incorporated-Coldstream Park, Lexington (Loan) - \$2,000,000; eMain - Louisville (Loan) - \$2,500,000; Madison E-Zone Commercialization Center - \$500,000; Regional Center for Emerging Technologies-Murray State University - \$1,500,000; Kentucky Innovation and Commercialization Centers - \$1,300,000; Kentucky

Energy/Environmental Consortium - \$100,000; and Commonwealth Seed Capital LLC - \$11,100,000.

Chairman Haydon said the budget directs that allocations from the New Economy Pools are to be reported to the committee. No further action was required for these projects.

Chairman Haydon said the next item of new business was a report submitted by the Kentucky Lottery Corporation (KLC). He introduced Marty Gibbs, the Executive Vice President, and William May, Legal Counsel, to discuss a proposal to acquire additional pull tab vending machines.

Ms. Gibbs said KLC is requesting the committee's approval to lease 300 new pull tab vending machines. The machines are eight-game vending machines, and will be put in retail stores. She said the price for each machine is \$85 per month for a total of \$918,000 for the initial three-year lease term.

Ms. Gibbs said this lease would fall under a price contract that was procured effective August 24, 1999, with a three-year term and an option to renew for two years. She said in July 1999, the committee approved KLC's lease of 397 12-game instant ticket vending machines. The committee also approved 533 new eight-game pull tab vending machines and peripheral equipment of 400 beta brights with Lotto Central signs for instant ticket vending machines. She said this equipment was leased during fiscal year 2000, and no additional equipment has been leased until this proposal.

Ms. Gibbs said Deloitte & Touche, an outside consultant hired by KLC Board and management, reviewed the potential for sales and new machines for the Lottery. The company presented its recommendation to the Board in September, which was accepted, and is the proposal submitted to the committee. Senator Buford asked how much the study by Deloitte & Touche cost. Ms. Gibbs said the contract was for \$20,000.

Representative Marcotte said a few months ago KLC had planned to report to the committee a much larger machine acquisition, but withdrew the request due to a disagreement between the Board and KLC management. He said he was disappointed in the Board's action of making a decision without consulting management. He said this action brings into question the management ability of the Board members, but fortunately the situation turned out right, as the consultant supported KLC's Chief Executive Officer.

Representative Wayne asked why KLC closed its regional offices in Ashland and Florence. Ms. Gibbs said the Lottery Corporation performed a study and reviewed the volume of business that was being done through the regional offices. She said very few people utilized the regional offices and a lot of the players come to Louisville to cash

their tickets. She said they concluded they could better service the state and reduce costs by closing these two offices.

Chairman Haydon said this equipment lease-purchase was authorized by the 2000 General Assembly and pursuant to statute, the Lottery must report to this committee prior to final action on this authorization. He said no further action is required.

Chairman Haydon introduced Ken Clevidence, Vice President for Fiscal Affairs, University of Kentucky (UK), and Dall Clark, Director of Capital Project Management, to discuss a project report. Mr. Clevidence said the university is requesting approval to proceed with an unbudgeted project to renovate the Shively Sports Center's HVAC. The project scope is \$475,000, and will be funded with private funds. Mr. Clevidence said Shively Sports Center was completed in 1961 and the existing cooling system does not provide cooling to the entire building, and an inefficient gravity heating system is used to heat the building.

Representative Wayne asked why the university did not include this project in its Six-Year Capital Plan. Mr. Clevidence said they thought the project could be completed for under \$400,000, the statutory limit for a capital project, but later concluded the project would cost \$475,000.

Senator Jackson made a motion to approve the Shively Sports Center HVAC renovation. The motion was seconded by Senator Buford and passed by voice vote.

Mr. Clevidence then discussed plans by the university to combine two projects authorized by the 2000 General Assembly as separate projects: Biomedical Sciences Research Building - \$65,000,000 and Building Connectors II - \$2,200,000. This project will allow for complete pedestrian movement throughout the medical center. The research facility will be located on Limestone and Virginia Avenue, and the connector will provide access to the Kentucky Clinic. Mr. Clevidence said they want to combine the project for efficiency purposes and to reduce site overhead cost.

In response to a question from Representative Wayne, Mr. Clevidence said the Building Connectors II portion of the project will be fully funded from Medical Center Fund balances, and no funds allocated to the Biomedical Sciences Research Building would be used for the Building Connectors II project. Chairman Haydon said no further action was required for this project.

Chairman Haydon said the University of Louisville submitted a project report for the committee's review. The school is reporting the purchase of two items of scientific research equipment at a cost of \$629,465 for the Speed Scientific School. Chairman Haydon said no further action was required for this project.

Chairman Haydon then asked Mr. Bill Hintze, Governor's Office for Policy and Management (GOPM), and Commissioner Russ to discuss the project report submitted by the Finance and Administration Cabinet.

Mr. Hintze reported a \$21,600 scope increase for the Knott County Arts and Crafts Foundation project. This project was approved by the 1998 General Assembly at a scope of \$1,000,000 (Bond Funds), and the scope was increased by \$100,000 by the 2000 General Assembly. Mr. Hintze said the scope increase will be funded with Coal Severance Funds and is necessary to reinstate some items that were deleted from the original bids due to lack of funding.

Senator Jackson made a motion to approve the scope increase. The motion was seconded by Representative Marcotte and passed by voice vote. The revised project scope is \$1,121,600.

Mr. Hintze next discussed a \$52,418 scope increase for the purchase of two transportation buses for the Kentucky State Reformatory. This project was authorized by the 2000 General Assembly at a scope of \$620,000 (Restricted Agency Funds). In response to a question from Representative Wayne, Mr. Hintze said restricted funds generated within the penal system will be used to pay for the scope increase.

Representative Marcotte made a motion to approve the scope increase. The motion was seconded by Senator Jackson and passed by voice vote. The revised project scope is \$672,418.

Mr. Hintze discussed a scope increase for the Western Kentucky Veterans' Cemetery in Hopkinsville. This project was authorized by the 2000 General Assembly at a scope of \$2,825,000 and received a scope increase of \$1,175,000 in August 2000. Mr. Hintze said the federal government has agreed to contribute an additional \$2,305,000 to this project to pay for pre-placed graveliners, site elements, road work, and the construction inflation.

Representative Wayne asked why the initial estimates for the cemetery were so far off. Mr. Hintze said they had never built a veterans' cemetery before and the scope of the original cemetery has been expanded. They have purchased additional acreage, and plan to add additional grave sites. In response to another question from Representative Wayne, Mr. Hintze said the first \$100,000 for the Veterans' Cemetery was appropriated in General Fund support.

Senator Jackson made a motion to approve the scope increase. The motion was seconded by Senator Buford and passed by voice vote. The revised project scope is \$6,305,000.

Mr. Hintze then presented an unbudgeted project for the Department of Veterans' Affairs. He said the Department plans to renovate and relocate the Thomson-Hood Veterans Center (THVC) Special Care Unit. He said THVC plans to add an Alzheimer's disease unit at the Center. He said they have created a unit on the second floor of THVC, but it is not up to code and is not sufficient for the patients who live there. Mr. Hintze said the Department made this project the top priority of its Six-Year Capital Plan, but because of citations during licensure review, the urgency of serving this population, and prospects of receiving substantial federal support, they felt the need to move forward.

Mr. Hintze said the project scope is \$2,100,000 (\$1,365,000 federal funds and \$735,000 restricted agency funds). He said the restricted funds are generated from vacancy credits due to difficulty in keeping the authorized level of personnel within the Department and from funds not needed because of delayed openings of the two new veterans' centers.

Representative Wayne asked when the federal money for this project will be available. Mr. Hintze said the state must complete the project design first. Before the project is authorized for construction, they will get a firm commitment from the federal government as to the amount they will contribute. Commissioner Russ said it would take approximately six months to design the facility.

General Leslie Beavers, Commissioner of the Department of Veterans' Affairs, said upon approval by the committee, the Department will file a preapplication with the federal Veterans' Administration which will put the project on the priority listing.

Representative Wayne expressed concerns that if for some reason the federal government did not approve this budget, and the state begins construction of the facility, the state would have to pick up the costs being presented today as federal. Mr. Hintze said they will not begin construction until the federal money is available.

Representative Wayne made a motion to approve the project with the understanding that approval is for design and bid only until there is approval from the federal government that federal funds will be available.

Senator Buford said this project needed to be done now, and the federal funds are forthcoming. He said the staff at THVC is working in a very serious situation, and project efforts should not be hampered. He asked Representative Wayne if he would amend his motion by removing the contingencies.

Representative Wayne asked if the contingency in his motion was necessary. Mr. Hintze said the contingency is built into the system. He said when the Finance Cabinet administers a project, they have to get approval at each phase of the project. He said they



will have no ability to proceed to construction absent the federal government's guarantee of funds.

Representative Wayne withdrew his amended motion. Senator Buford made a motion to approve the unbudgeted project. The motion was seconded by Senator Leeper and passed by voice vote. In response to a question from Senator Buford, General Beavers said that similar specialty care units have been included in the other two nursing homes now under construction.

The final project Mr. Hintze discussed was a \$10,000 federally funded scope increase for the Battle Simulation Center at the Wendell H. Ford Regional Training Center in Muhlenberg County. This unbudgeted project was approved by the committee in April 2000 at a scope of \$462,000. The project received a scope increase of \$33,000 in November 2000. The most recent scope increase will be used to establish network connectivity between the Battle Simulation Center and the D-First Center (another battle simulation center).

Senator Jackson made a motion to approve the scope increase. The motion was seconded by Senator Leeper and passed by voice vote. Representative Wayne voted No.

Mr. Jim Abbott, Director, Division of Real Properties, reported a new lease contract with the City of Maysville for the Workforce Development Cabinet (PR-4612). Mr. Abbott said this lease will replace the Cabinet's current lease (PR-3566), and the building will serve as an automechanic and autobody shop for students. Mr. Abbott said the building is 14,325 square feet and the annual cost of the lease is \$43,000. The lease expires in 2003, and the lease agreement contains an option for the state to purchase the property for a sum of \$344,000 over an eight-year term at the end of the lease expiration. Mr. Abbott said prior to the improvements, the property was appraised at \$350,000 and \$625,000. He said there are some environmental concerns that will be addressed prior to purchase of the property.

Representative Wayne asked if there will be some assurance the state is not moving into a facility that is environmentally threatening. Mr. Abbott said the City of Maysville hired Commonwealth Technology Inc., an environmental consulting firm, to inspect the property for building conditions. He said there are fuel tanks on the property. However, he said if the state does opt to acquire the property, the fuel tanks will be removed prior to acquisition. The information was also reviewed by the Division of Engineering.

Representative Wayne made a motion to approve lease contract PR-4612. The motion was seconded by Senator Buford and passed by voice vote.

Mr. Abbott then discussed a new lease contract in Franklin County for the Department of Housing, Buildings and Construction (PR-4464). Three leases within the Department (PR-3027, PR-3302, and PR-3752) will be consolidated and relocated to property owned by ForeIron Development to accommodate the program needs of the using agency. The annual cost of the lease is \$316,931.

Representative Wayne made a motion to approve lease contract PR-4464. The motion was seconded by Representative Marcotte and passed by voice vote.

The last item Mr. Abbott reported was a lease modification for lease contract PR-4430, Department of Workers' Claims in Fayette County. The Department is acquiring, at the same terms and conditions, an additional 4,036 square feet. Mr. Abbott said the additional space is needed for the Workers' Claims Compensation Board and twelve staff who are relocating from the Frankfort office. The annual cost of the lease is \$140,175.

Representative Wayne made a motion to approve the lease modification for lease contract PR-4430. The motion was seconded and passed by voice vote.

Chairman Haydon next introduced Ms. Debby Milton, Kentucky Infrastructure Authority (KIA), to present two Fund E (Solid Waste Grant and Loan Fund) grant amendments and one new Fund E grant for the Certified Clean Counties Program. The grants will be used to clean up open dumps in different counties. Knott and Magoffin Counties received additional funds of \$150,000 each, and Pike County received a grant of \$75,000.

Representative Wayne made a motion to approve the two amended grants for Knott and Magoffin Counties and the new grant for Pike County. The motion was seconded by Representative Marcotte and passed by voice vote.

Ms. Milton also presented two new Fund F (Federally Assisted Drinking Water Revolving Loan Fund) projects proposed for KIA assistance: a \$1,197,072 loan for the Mountain Water District in Pike County, and a \$355,660 loan for the Bullock Pen Water District in Grant County.

Representative Marcotte made a motion to approve the two new KIA loans. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Haydon then called on Mr. Don Mullis, Executive Director, of the Office of Financial Management, to present the agency's bond activity report. Mr. Mullis first reported three new bond issues: State Property and Buildings Commission (SP&BC) Revenue Bonds, Project No. 71, (\$66,366,850); Morehead State University Consolidated Educational Buildings Refunding Revenue Bonds, Series L, dated December 1, 2001, (\$4,790,539); and SP&BC Revenue Bonds, Project No. 73 in an amount not to exceed

(\$100,000,000). Proceeds from the SP&BC Revenue Bonds, Project No. 71, and Morehead State University bond issues will be used to refund outstanding bonds. Proceeds from SP&BC Revenue Bonds, Project No. 73 will be used to provide permanent financing for the new Transportation Cabinet office building and the parking structure.

Representative Marcotte made a motion to approve the three new bond issues. The motion was seconded by Senator Buford and passed by voice vote.

Next, Mr. Mullis discussed two follow-up reports for previously approved bond issues: Eastern Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds, Series U, dated September 1, 2001 (\$9,035,000); and Kentucky Housing Corporation Housing Revenue Bonds, 2001 Series F (\$50,000,000). Chairman Haydon said no action is required for follow-up reports.

Lastly, Mr. Mullis reported thirteen new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Ballard County, Meade County, Casey County, Powell County, Fulton County, Robertson County, Henry County, Russell County, Knott County, Trimble County, Madison County (2), and Walton-Verona Independent (Boone County).

Senator Buford made a motion to approve the school bond issues with SFCC debt service participation. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon said there were seven locally funded school bond issues submitted to the committee for review this month: Boone County (2), Johnson County, Knott County (2), Oldham County, and Pikeville Independent (Pike County). He said all disclosure information has been filed, and no further action on these bond issues is required.

With there being no further business, the meeting adjourned at 2:45 p.m.